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Supreme Court of the United States.

October Term, 1931.

No. 332.

J. Howard Leman, Administrator c.t.a. of the Estate of George E. Belcher, and George E. Belcher Company,

Petitioners,

v.

Krentler-Arnold Hinge Last Company,

Respondent.

BRIEF ON BEHALF OF PETITIONERS ON CERTIORARI TO UNITED STATES CIRCUIT COURT OF APPEALS FOR THE FIRST CIRCUIT.

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Supreme Court of the United States.

OCTOBER TERM, 1931.

No. 332.

J. HOWARD LEMAN, ADMINISTRATOR C.T.A. OF THE ESTATE OF GEORGE E. BELCHER, and GEORGE E. BELCHER COMPANY, PETITIONERS,

v.

KRENTLER-ARNOLD HINGE LAST COMPANY, RESPONDENT.

Brief on Behalf of Petitioners on Certiorari to United States Circuit Court of Appeals for the First Circuit.

The official reports of the opinion of the Court of Appeals delivered below and immediately involved herein are reported *Krentler-Arnold Hinge Last Co.* v. *Leman et al.*, 50 F.R. (2d) pages 699-707, and, on rehearing, pages 707 to 712.

Preceding opinions in this case not immediately involved herein are referred to in the succeeding statement.

This cause is before the Court on certiorari to the United States Circuit Court of Appeals for the First Circuit on a petition filed August 28, 1931, and allowed October 26, 1931 (section 240 (*a*) Judicial Code), on certain questions of law as set forth in said petition.

Your petitioners were the defendants and successful counter-claimants in a suit under letters patent to Peterson, No. 1,195,266, for Hinged Last for Shoes, reported in 300 F.R. 834, and affirmed in 13 F.R. (2d) 796. 24 F.R. (2d) 423, involves the accounting in the original suit.

The opinion of the District Court on contempt is not reported, but appears in original record at p. 284. The mas-

ter's report on accounting appears at original record pp. 253 to 266.

STATEMENT OF MATTERS MATERIAL TO QUESTIONS PRESENTED.

The present respondent, then plaintiff, had brought a bill in equity in the Massachusetts District Court alleging infringement of two patents, but this bill was dismissed. Respondent resisted jurisdiction on counter-claim. The Court of Appeals for the First Circuit sustained jurisdiction (13 F.R. (2d) *supra,* at page 801, and later further sustained jurisdiction in the present phase of the case, as appears by the opinion of the Court of Appeals, 50 F.R. (2d) 699, at 701.

An accounting was had in the United States District Court for the District of Massachusetts (24 F.R. (2d) 423), in the main suit, under which the petitioners were awarded plaintiff-respondent's profits. A final injunction duly issued against the plaintiff-respondent specifically and generally, restraining it from further or other infringement (Record, pp. 14 and 15; Exhibit 5).

In its opinion, 50 F.R. (2d) at page 706, the Court of Appeals said:

> "It may not be amiss to say that the injunction was not simply against the manufacture, use, or sale of the old infringing device complained of in the equity suit, or one colorably like it, as the Krentler-Arnold Company contends and would seem to think, but against the manufacture, use, or sale of an article 'embodying or containing the invention covered by claims 1, 2, 3, 4, 6 and 7 . . . and any substantial or material part thereof, or any substantial equivalent or colorable imitation thereof.'"

Thereupon the respondent began to manufacture and sell at an admitted profit a modified form of the hinge or link

of the last structure. On petition for civil and criminal contempt the Appellate Court found respondent guilty of "a not doubtful or even colorable but certain" infringement and of civil contempt, but not criminal contempt.

The District Court had held that the petitioners were entitled, as remedial relief upon the civil aspect of the contempt proceedings, to an award of the further and continued profits made by the respondent by reason of its renewed infringement which was found (Original Record, p. 284) to be in violation of the permanent injunction.

On the further accounting before the master in the case the respondent admitted having made profits amounting to $39,576.26 by such further infringing acts in violation of the injunction (see Master's Report—Original Record, pp. 253 to 266, at 265).

On appeal the United States Circuit Court of Appeals for the First Circuit affirmed the decree of the lower Court in finding that respondent had committed acts of infringement in violation of the permanent injunction, and that the respondent was guilty of civil contempt (Original Record, pp. 251, 282, 284; see also 50 F.R. (2d) 699).

It, however, reversed the District Court's allowance of profits as a measure of the fine imposed for remedial relief, holding that such profits could not be considered as a basis of any remedial award.

After sustaining the lower Court as to other matters in its original opinion of March 10, 1931, the Court of Appeals went on to say (50 F.R. (2d) at p. 706):

> "But we are of the opinion that the District Court went far afield and exceeded its authority in decreeing that the complainants recover profits made by the respondent by the infringement of the letters patent. In Gompers v. Buck Stove & Range Co., supra, and Kreplik v. Couch Patents Co., supra, at page 569, it was pointed out that the proper remedial relief for the dis-

obedience of an injunction in an equity case is to impose a 'fine for the use of the complainant, measured in some degree by the pecuniary injury caused by acts of disobedience.' In other words, that the amount of the fine or remedial relief is to be governed largely by the pecuniary damage or injury which the act of disobedience caused the complainant. This pecuniary damage surely does not include profits which the defendant made by reason of the infringement.

"The item of profits should not have been allowed or taken into consideration in determining the remedial relief to which the complainants were entitled by way of fine or otherwise."

Later in the present case a petition for rehearing was allowed and heard, but the Court of Appeals in a further opinion after rehearing adhered to its previous view on this point, but with a dissenting opinion by Judge Anderson as follows (see 50 F.R. (2d) 707, at 711):

"ANDERSON, J. (dissenting). Still asserting, on the facts in this case, no continuing jurisdiction over this Michigan corporation, I now add that (assuming jurisdiction and violation of the injunction) I can see no reason why the profits derived from the alleged violation of the injunction are not recoverable; that at least they may be taken as a guide in assessing petitioner's damages.

"Rights, under a previously obtained injunction, are at least as great as rights under a presently obtained injunction. Violation of such rights ought to have like remedy, both in nature and extent. The patent owner, if now suing in equity for infringement, could of course recover the infringer's profits. R. S. sec. 4921, 35 U. S. C. A., sec. 70.

"But the present holding is that the persistent infringer, instead of being held, under R. S., sec. 4919,

liable for punitive damages (no damages whatever being shown), shall escape all accountability for its profits, made as the result of its alleged contumacy.

"In Brown v. Lanyon, 148 Fed. 838, (C.C.A., 8th) it was held that an action at law cannot be maintained for the sole purpose of recovering an infringer's profits. Compare Walker Patents, 5th Ed., sec. 555. In Root v. Railway, 105 U. S. 189, it was held that the owner of an expired patent, could not maintain a bill in equity solely for an account of profits and damages, against an infringer during the life of the patent; that his only remedy was at law. Compare Tilghman v. Proctor, 125 U. S. 136, 148.

"The present decision apparently leaves this appellant without any remedy, either at law or in equity, to obtain its just rights.

"None of the cases cited and reviewed in the majority opinion seems to me to support the conclusion. *The proceedings are purely remedial. I think the appellant entitled to full relief.*" (Italics ours.)

The prevailing opinion of the Court on rehearing stated:

"Since our opinion in No. 2525 was handed down on March 10, 1931, the plaintiffs, appellees, have filed a petition for rehearing and a rehearing has been had on the question whether we were right in overruling the action of the District Court in awarding to the plaintiffs in this contempt proceeding the profits which the defendant had made in the sale of its new infringing device.

"Diligent search on the part of counsel and of this court has failed to discover any case in which this question has been directly raised and decided by a Court of Appeals or by the Supreme Court" (50 F.R. (2d) at p. 707).

SPECIFICATION OF THE QUESTIONS RAISED BY CERTIORARI AS ALLOWED.

The specific questions submitted by petitioners in their petition for certiorari were:

The specific question goes to the power of the Courts of the United States to award, as remedial relief in equity in civil contempt proceedings in a patent suit, the respondent's profits wrongfully derived from infringement continued after final decree and final injunction, this infringement constituting the contempt.

The second specific question presented herein for determination is whether there is any need of proving "that they [the plaintiffs] had lost the same [the reasonable royalty] through the defendant's conduct" as apparently now held by the First Circuit Court of Appeals (50 F.R. (2d) at 711).

I. FIRST QUESTION CONSIDERED.

In view of the above reasoning of the Court of Appeals for the First Circuit the first question herein submitted may be restated as follows:

Is the pecuniary loss, injury, or damage to petitioners, in being deprived of the defendant's profits (to which, under United States R.S. sec. 4921, the petitioners are by law entitled), such a pecuniary loss or damage as petitioners are entitled to by way of remedial relief and/or as a measure of the fine for the use of petitioners, in a civil contempt proceeding in a patent suit after final decree?

In *Worden* v. *Searls*, 121 U.S. 14, at 26, this Court referred to "orders imposing the fines" as being "to all intents and purposes *orders* in the course of the cause *based on the questions involved as to the legal rights* of the parties." (Italics ours.)

If petitioners are, as a matter of "legal right," under R.S. 4921, entitled to respondent's profits made from wrongful infringement, it would seem to be clear that petitioners are

clearly entitled to such profits by way of remedial relief in the civil contempt proceedings. Whether or not the remedial relief is called a "fine," or any other name, is not important. The important point is that full, adequate, and complete remedial relief be granted for the wrong committed in order to do substantial justice.

The First Circuit Court of Appeals apparently is in conflict with the heretofore unquestioned practice followed by—

the Third Circuit Court of Appeals in *McKee Glass Co. et al.* v. *H. C. Fry Glass Co.*, 248 F.R. 125;

the Sixth Circuit Court of Appeals, *Munroe Body Co. et al.* v. *Herzog*, 13 F.R. (2d) 705; and—

the Second Circuit Court of Appeals, *Gordon et al.* v. *Turco Halvah Co., Inc.*, 247 F.R. 487, cited by the Supreme Court in *Union Tool Co.* v. *Wilson*, 259 U.S. 107, at 112, where the Court stated:

> ". . . ; but the order to be entered is not exclusively or necessarily a discretionary one. See *Christensen* v. *Westinghouse*, 135 F.R. 774; *Gordon* v. *Turco Halvah*, 247 F.R. 487. Moreover legal discretion in such a case does not extend to a refusal to apply well settled principles of law to a conceded state of facts. See *Winchester Repeating Arms Co.* v. *Olmstead*, 203 F.R. 493, 494; *In re Sobol*, 242 F.R. 487, 489."

The "conceded state of facts" in this case are, first that the respondent made $39,576.26 as profits, and second that, under R.S. 4921, petitioners are entitled to such profits.

These Circuit Courts of Appeal in the cases referred to followed the practice of *allowing the profits* of the respondent to be paid to the petitioner in civil contempt proceedings as a measure of the fine and/or by way of remedial relief, but the question or issue as to the propriety of allowing such profits was not directly raised and decided in any of the three cases above cited.

It is submitted that the Court of Appeals for the First Circuit was clearly in error in stating:

> "This pecuniary damage surely does not include profits which the defendant made by reason of the infringement. The item of profits should not have been allowed or taken into consideration in determining the remedial relief to which the complainants were entitled by way of fine or otherwise."

Such a principle thus enunciated by the Court of Appeals is contrary to and in conflict with the law and practice as laid down by this Court in *Worden* v. *Searls*, 121 U.S. 14, at 24, opinion by Justice Blatchford, cited in *Matter of Christensen Engineering Co.*, 194 U.S. 458, opinion by Mr. Chief Justice Fuller.

In *Worden* v. *Searls* this Court was considering a case in which the defendant had violated a preliminary injunction, and been held in contempt, and a fine imposed for the violation of the injunction, together with costs of said proceedings.

One of the orders considered by this Court was dated October 9, 1882:

> "that said defendants, Alva Worden and John S. Worden, do pay a fine of eleven hundred and eighty-two dollars to the clerk of this court, to be paid over by said clerk to complainant for damages and costs, and that said defendants do stand committed until the same is paid."

This Court, in considering the elements which "made up" the fine, stated:

> "It appears that the $1182 was made up of $682, the PROFITS *of the defendants* on 62 gross of whip-sockets sold, and $500, expenses of the plaintiff in the contempt proceedings." (Italics ours.)

This Court further stated, in considering the nature of the fines:

> "But THE FINES were, in fact, measured by the damages the plaintiff had sustained and the expenses he had incurred. They WERE INCIDENTS OF HIS CLAIMS IN THE SUIT. HIS RIGHT TO THEM WAS, IF IT EXISTED AT ALL, FOUNDED ON HIS RIGHT TO THE INJUNCTION, AND THAT WAS FOUNDED ON THE VALIDITY OF HIS PATENT."

It is understood by petitioner that the decision in effect stated that "the fines," in part "the profit of the defendants," . . . "were, in fact, measured by the damages the plaintiff had sustained."

In distinguishing the case from an earlier case, *New Orleans* v. *Steamship Co.*, 20 Wall. 387, this Court stated that—

> "*. . . though the proceedings were nominally those of contempt, they were really proceedings to award damages to the plaintiff, and to reimburse to him his expenses . . .*"

The case of *Worden* v. *Searls* was later cited with approval in an opinion by Mr. Chief Justice Fuller in *Matter of Christensen Engineering Co.*, 194 U.S. 458, at page 460, which was a patent case involving the question of contempt for violation of an injunction.

The opinion by Mr. Chief Justice Fuller quoted:

> "In Worden v. Searls, 121 U. S. 14, the proceeding was remedial and compensatory, in that for violations of a preliminary injunction the defendants were ordered to pay the plaintiff $250 'as a fine for said violation', by one order, and, by another order, to pay a fine of $1,182 to the clerk, to be paid over by him to the plaintiff for 'damages and costs', the $1,182 being made up

of $682 PROFITS MADE BY THE INFRINGEMENT, and $500 expenses of plaintiff in the contempt proceedings. These interlocutory orders were reviewed by this court on appeal from the final decree, and as that decree was reversed, the orders were also set aside, this being done 'without prejudice to the power and right of the Circuit Court to punish the contempt referred to in those orders, by a proper proceeding.'" (Italics ours.)

It is noted that the decree on the merits in *Worden* v. *Searls* was ultimately reversed because of a finding of invalidity of the reissue patent involved, but this does not affect the controlling portion of the decision here relied on in *Worden* v. *Searls*.

In *Searls* v. *Worden*, 13 F.R. 716 (Cir. Ct. E.D. Mich. 1882), referred to by the Supreme Court above in 121 U.S. 14, at 24, the lower Court had set forth the facts which show what was before this Court (at p. 716).

Brown, D.J.: "This is an application to fix a penalty for contempt in selling 62 gross of whip-sockets in violation of an injunction against the sale of such sockets, which had been adjudged to be an infringement of complainant's patent. The sockets were sold in bulk to one Havens, upon the day the injunction was issued, and Havens thereafter disposed of them in small lots, received the money therefor, and paid it over to the defendant. This sale to Havens was, under the circumstances, adjudged by this court to be merely a subterfuge, the defendant Worden was ADJUDGED GUILTY OF CONTEMPT, AND THE CASE WAS REFERRED TO A MASTER TO COMPUTE THE AMOUNT OF *PROFIT REALIZED BY THE DEFENDANT*, together with complainant's costs and expenses. *The question now arises as to the amount of*

fine to be imposed, and its distribution. The main question is whether the fine ought to be assessed at a gross sum, in the nature of a penalty, to be paid over to the government, as in an ordinary criminal proceeding, or *whether it may be determined by the amount of* PROFIT *realized by the defendant,* and the costs and expenses incurred by the complainant, *and the aggregate ordered to be paid over to the complainant in reimbursement of his damages.* . . . But I notice that in *several cases the federal courts have adopted an analogous practice, and imposed a fine equivalent to the* PROFITS *made by the defendants,* and the costs and expenses of complainant, and directed the same to be paid over to the latter by way of reimbursement. In re Mullee, 7 Blatchf. 23; Doubleday v. Sherman, 8 Blatchf. 45.

"The validity of this practice is not discussed in these cases, and, without expressing any opinion of my own, *I am disposed,* with some hesitation *to follow them until corrected by a higher court. In this class of cases it is certainly consonant with justice. This renders it necessary to ascertain the amount of* PROFITS *realized by the defendant,* and the amount of complainant's costs and expenses. . . . If, for instance, the master had reported defendant's *profits* at only five dollars, the imposition of a fine of $1,500, for expenses and counsel fees, would seem not only an unwarrantable encouragement of proceedings of this nature, but a possible infraction of the constitutional provision against cruel and unusual punishments.

"The aggregate of the other items is $1,182, which is imposed as a fine upon the defendant for the violation of this injunction and it is ordered that he be committed to the custody of the marshal until this fine be paid, and that the amount of such fine, when collected, be paid over to the complainant in satisfaction of his damages.

[Italics ours.] See In re Carv, 10 F.R. 622, and note, 629."

The opinion of the Court of Appeals for the First Circuit is also in conflict with, and contrary to the principles of law applied and practice followed in, the Circuit Court of Appeals for the Second Circuit in the case of *Gordon et al.* v. *Turco-Halvah Co., Inc., et al.*, 247 F.R. 487. That case was cited by this Court in *Union Tool Co.* v. *Wilson*, 259 U.S. 107, at 112, on the point of exercise of discretion in allowing compensation to the injured party for violation of injunction.

Gordon et al. v. *Turco-Halvah Co., Inc.*, was a patent case involving *contempt proceedings* for violation of a final injunction after final decree. The Court held that the defendants "*were accountable for all the profits.*" It stated that this "necessarily followed" after it had been shown before the master that plaintiff's proofs were such as to bring the defendant's product under the patent as an infringing product.

The Court of Appeals for the First Circuit is also in conflict with the law as applied by the Sixth Circuit Court of Appeals in *Munroe Body Co. et al.* v. *Herzog*, 13 F.R. (2d) 705, opinion by Circuit Judge Denison. That case also was a patent case involving contempt proceedings for violation of an injunction. In that case the Court had imposed a private penalty that "was made additional to the damages *and* PROFITS *that might be recovered* in the pending accounting, and was not to have any effect upon such accounting." (Italics ours.)

The Court further stated:

> "A private penalty of this kind is imposed, not to compensate for assessable damages and *profits*, but with reference to those items of damages which are not thus assessable." (Italics ours.)

It is clear from that opinion that the private penalty imposed by the Court was held in the Sixth Circuit to be proper, even though—

> "it was made additional to the damages *and profits that might be recovered* in the pending accounting . . ."

It may be noted that in *Munroe Body Co.* v. *Herzog* there was a pending accounting, whereas in the present case the accounting to ascertain the assessable profits made by the defendants, which are by statute always recoverable by a plaintiff, had already been had before the master already sitting in the case.

This First Circuit Court of Appeals is also in conflict with the law as applied in the Third Circuit Court of Appeals in *McKee Glass Co. et al.* v. *H. C. Fry Glass Co.*, 248 F.R. 125. That was a patent case and related to—

> "the proceedings for contempt of the court's final decree, in which violation of the injunction is admitted and entire contempt for the court's decree is shown."

The following is quoted as indicating the nature of the questions raised:

> "The questions raised on this appeal are three: The first has to do with the *principle* upon which the court formulated a penalty against the defendants; the second and third relate to certain items in the amount of the penalty." (Italics ours.)

The penalty imposed by the Court was compensatory and remedial in character, and amounted to $25,151.70. One of the items included in this remedial award was: "NET INFRINGING PROFITS REALIZED BY DEFENDANTS —$8,000.00."

No question whatever was raised as to the propriety of including, as an item in the remedial award for the contempt,

the item of $8000 as representing net *infringing profits* realized by defendants.

In that case the Court also included in the penalty or fine imposed an item of $10,000 as "additional compensation for complainant's injuries." The defendants charged that the Court abused its discretion by allowing $10,000 as additional compensation for the complainant's injuries. However, the Court of Appeals, in finally disposing of this matter, states:

> "As there was evidence before the trial judge which is not before us, and as it is plain that in reaching his decree the trial judge considered that evidence, we must assume on authority of Pound v. Turck, 95 U. S. 459, 24 L. Ed. 525, and Wagner v. Standard Sanitary Mfg. Co., 244 Pa. 310, 91 Atl. 353, that there was sufficient evidence upon which to base the award of $10,000.00."

Other matters were considered by the Court in the opinion, but it is not necessary to enter into these. The important point is, however, that the Court did allow, as one of the items constituting the penalty imposed in making the compensatory award from the remedial aspect of the case, the "net infringing *profits* realized by defendants," amounting to $8000.

IN THE PRESENT CASE THERE CERTAINLY IS NO LESS GUILT INVOLVED IN THE CONTEMPTUOUS ACTS OF INFRINGEMENT BY KRENTLER, BY VIOLATING AN INJUNCTION, THAN THERE IS INVOLVED IN ACTS OF INFRINGEMENT IN THE ORIGINAL PATENT SUIT. THE FACT IS, AN ACT OF INFRINGEMENT, BY VIOLATING AN INJUNCTION ALREADY ISSUED, WHILE OF THE SAME NATURE AND KIND (AND SO HELD), IS MORE CULPABLE AND REPREHENSIBLE THAN ACTS FOUND TO BE INFRINGING ACTS IN AN ORIGINAL PATENT SUIT.

Section 4921 of the Revised Statutes provides:

"THE SEVERAL COURTS VESTED WITH JURISDICTION OF CASES ARISING UNDER THE PATENT LAWS SHALL HAVE POWER TO GRANT INJUNCTIONS ACCORDING TO THE COURSE AND PRINCIPLES OF COURTS OF EQUITY TO PREVENT THE VIOLATION OF ANY RIGHT SECURED BY PATENT ON SUCH TERMS AS THE COURT MAY DEEM REASONABLE. AND UPON A DECREE BEING RENDERED IN ANY SUCH CASE FOR THE INFRINGEMENT, THE COMPLAINANT SHALL BE ENTITLED TO RECOVER IN ADDITION TO THE PROFITS TO BE ACCOUNTED FOR BY THE DEFENDANT, THE DAMAGES THE COMPLAINANT HAS SUSTAINED THEREBY, AND THE COURT SHALL ASSESS THE SAME OR CAUSE THE SAME TO BE ASSESSED UNDER ITS DIRECTION. If on the proofs it shall appear that the complainant has suffered damage from the infringement or that the defendant has realized profits therefrom to which the complainant is justly entitled, but that such damages or profits are not susceptible of calculation and determination with reasonable certainty, the court may, on evidence tending to establish the same, in its discretion, receive opinion or expert testimony, which is hereby declared to be competent and admissible, subject to the general rules of evidence applicable to this character of testimony; and upon such evidence and all other evidence in the record the court may adjudge and decree the payment by the defendant to the complainant of a reasonable sum as profits or general damages for the infringement: Provided, That this provision shall not affect pending litigation. And the court shall have the same power to increase such damages in its discretion

as is given to increase the damages found by verdicts in actions in the nature of actions of trespass on the case; but in any suit or action brought for the infringement of any patent there shall be no recovery of profits or damages for any infringement committed more than six years before the filing of the bill of complaint or the issuing of the writ in such suit or action, and this provision shall apply to existing causes of action." (Capitals ours.)

Revised Statutes, sec. 4919, provides that:

"Damages for the infringement of any patent may be recovered by action on the case in the name of the party interested either as patentee, assignee or grantee. And whenever in any such action a verdict is rendered for the plaintiff, the Court may enter judgment thereon for any sum above the amount found by the verdict as the actual damages sustained, according to the circumstances of the case, not exceeding three times the amount of such verdict together with the costs."

It is clear, therefore, that in any patent case the statutes specifically provide that the plaintiff who prevails is entitled "to the *profits* to be accounted for by the defendant . . . and the court shall assess the same . . ." (Revised Statutes, sec. 4921).

The lower Court found that the new device put out by the defendant, Krentler-Arnold Hinge Last Company, was a clear infringement in violation of the injunction already issued. This Court of Appeals, in its opinion, stated:

"It is clear that the new device answers in every respect the provisions of claims 2, 4, 6 and 7 of the Peterson patent and that the question of *infringement is not doubtful or even merely colorable,* BUT CERTAIN.

"We are therefore of the opinion that the District Court did not err or abuse its discretion in entertaining the contempt proceedings and ordering the parties to trial thereon."

IT IS SUBMITTED THAT A PARTY PROCEEDING BY WAY OF CONTEMPT FOR INFRINGEMENT IS ENTITLED TO RECOVER BY AN ACCOUNTING FOR DAMAGES AND PROFITS ALL THAT COULD BE RECOVERED IN AN INDEPENDENT SUIT FOR THE SAME INFRINGEMENT HAD THE PARTY ELECTED TO PROCEED OTHERWISE. THE DISTRICT COURT, IN THE EXERCISE OF ITS DISCRETIONARY POWERS, ELECTED TO, AND DID IN FACT, ORDER THE PARTIES TO TRIAL BY WAY OF CIVIL CONTEMPT.

Certainly there is nothing in the nature of a contempt proceeding where the defendant has been found to have violated an injunction which requires a Court of Equity, in the exercise of discretionary powers, to so dispose of a case as to make it possible for a guilty party to profit by its own wrong by retaining profits made by acts found to be in deliberate violation of the injunction.

In an ordinary infringement suit, without any regard to the question of contempt of court, the owner of a patent under Revised Statutes, sec. 4921, is by law and statute always entitled to the *profits* made from the wrongful acts of infringement, which is a tort, and THIS IS TRUE WHETHER OR NOT THE PLAINTIFF SUFFERED ANY PECUNIARY INJURY OR DAMAGE. The granting of profits is remedial relief peculiar to patent cases under the statutes. There is no reason which impels a Court of Equity in the administration of equity to impose a lesser award where the acts have been found not only to have been an infringement, but in contempt, disrespect, and disregard of the injunction and orders of this Court.

The District Court found the Krentler-Arnold Hinge Last Company made a "clever imitation" of the Peterson invention—

> "in a deliberate attempt to discover a means of availing itself of the invention without infringing" (Original Record, p. 284).

The District Court further stated:

> "Since the beginning of this action for infringement which was originally by Krentler-Arnold Hinge Last Company, it has consistently disobeyed the orders of this court. It has now adopted an artifice . . ." (Original Record, p. 285).

The Court of Appeals held:

> ". . . the question of infringement is not doubtful or even merely colorable, but certain" (50 F.R. (2d) 699, at 702 (point 4).

The proposition that a successful party, in whose favor infringement is found, is entitled to the profits realized from the tortious acts—the acts of infringement—is so fundamental, elemental, and well established that it would be difficult to find an authority in which the practice has even been questioned. Petitioner, after diligent search, has been unable to find any authority for the disallowance of profits made by a defendant in a patent suit. The nearest approach to this is where a Court has refused to give an accounting where the infringing acts have been on such a small scale and so insignificant as not to warrant the cost and expense of an accounting. In this case the contempt, admittedly netted respondent $39,576.26 in the relatively short period of injunction violation.

From another case in which the plaintiff was held to an accounting of damages and *profits* arising from violation of

injunction (see *Macauley* v. *White Sewing Machine Co.*, 9 F.R. 698, opinion by Judge Blatchford), the following is quoted:

> "The *profits* and damages from the infringement involved in the violation will remain to be accounted for in the suit."

Many cases may be found supporting the general practice of allowing defendants *profits* as remedial relief where plaintiff is entitled to injunction:

In *Tilghman* v. *Proctor, Proctor* v. *Tilghman*, 125 U.S. 136, at 144 (appeals from the Circuit Court of the United States for the Southern District of Ohio), Mr. Justice Gray said:

> "But upon a bill in equity by the owner against infringers of a patent, *the plaintiff is entitled to recover the amount of gains and* PROFITS *that the defendants have made by the use of his invention.*
>
> "This rule was established by a series of decisions under the patent act of 1836, which simply conferred upon the courts of the United States general equity jurisdiction, with the power to grant injunctions, in cases arising under the patent laws. Act of July 4, 1836, c. 357, §17, 5 Stat. 124; Livingston v. Woodworth, 15 How. 546; Dean v. Mason, 20 How. 198; Rubber Co. v. Goodyear, 9 Wall. 788; Mowry v. Whitney, 14 Wall. 620; Littlefield v. Perry, 21 Wall. 205, 229; Mason v. Graham, 23 Wall. 261; Tremolo Patent, 23 Wall. 518; Cawood Patent, 94 U. S. 695; Mevs v. Conover, October Term, 1876, 11 Pat. Off. Gaz. 111; Elizabeth v. Pavement Co., 97 U. S. 126; Root v. Railway Co., 105 U. S. 189.
>
> "*The reasons that have led to the adoption of this rule are, that it comes nearer than any other to doing*

complete justice between the parties; that in equity the PROFITS *made by the infringer of a patent* BELONG TO THE PATENTEE *and not to the infringer; and that it is inconsistent with the ordinary principles and practice of courts of chancery, either, on the one hand, to permit the wrongdoer to profit by his own wrong,* or, on the other hand, to make no allowance for the cost and expense of conducting his business, or to undertake to punish him by obliging him to pay more than a fair compensation to the person wronged."

At 148: "*The general rule has been sometimes said to be based upon the theory that the infringer is converted into a trustee for the owner of the patent, as regards the profits made by the use of his invention.* But, as has been recently declared by this court, upon an elaborate review of the cases in this country and in England, it is more strictly accurate to say, *that a court of equity, which has acquired, upon some equitable ground, jurisdiction of a suit for the infringement of a patent, will not send the plaintiff to a court of law to recover damages, but will itself administer* FULL RELIEF, BY AWARDING, AS AN EQUIVALENT OR A SUBSTITUTE FOR LEGAL DAMAGES, A COMPENSATION COMPUTED AND MEASURED BY THE SAME RULE THAT COURTS OF EQUITY APPLY TO THE CASE OF A TRUSTEE WHO HAS WRONGFULLY USED THE TRUST PROPERTY FOR HIS OWN ADVANTAGE. Root v. Railway Co., 105 U. S. 189, 214, 215.

"*The rule in equity of requiring an infringer to account for the gains and* PROFITS *which he has made from the use of a patented invention,* instead of limiting the recovery to the amount of royalties paid to the patentee by third persons, *has been constantly upheld under the provision of the patent act of 1870, embodied in the Revised Statutes, which, beside reënacting the*

grant of general equity jurisdiction in patent cases, further enacts that 'upon a decree being rendered in any such case for an infringement, the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby, *and the court shall assess the same or cause the same to be assessed under its direction* and the court shall have the same powers to increase the same in its discretion that are given by this act to increase the damages found by yerdicts in actions upon the case;' and thus expressly affirms the defendant's liability to account for *profits,* as well as authorizes the court sitting in equity to award and to treble any damages that the plaintiff has sustained in excess of the defendant's profits. Act of July 8, 1870, c. 230, §55, 16 Stat. 206; Rev. Stat. 4921; Birdsall v. Coolidge, 93 U. S. 64, 69; Marsh v. Seymour, 97 U. S. 348; Root v. Railway Co., above cited; Manufacturing Co. v. Cowing, 105 U. S. 253; Garretson v. Clark, 111 U. S. 120; Black v. Thorne, 111 U. S. 122; Birdsell v. Shaliol, 112 U. S. 485, 488; Thomson v. Wooster, 114 U. S. 104."

At 160: "If the question thus presented were a new one, it would require grave consideration. *But by a uniform current of decisions of this court, beginning thirty years ago, the* PROFITS *allowed in equity, for the injury that a patentee has sustained by the infringement of his patent,* HAVE BEEN CONSIDERED AS A MEASURE OF UNLIQUIDATED DAMAGES, which, as a general rule, and in the absence of special circumstances, do not bear interest until after their amount has been judicially ascertained; and the provision introduced in the patent act of 1870, regulating the subject of *profits* and damages, made no mention of interest, and has not been understood to affect the rule as previously announced. Silsby v. Foote, 20

How. 378, 387; Mowry v. Whitney, 14 Wall. 620, 651; Littlefield v. Perry, 21 Wall. 205, 229; Act of July 8, 1870, c. 230, §55, 16 Stat. 206; Rev. Stat. 4921; Parks v. Booth, 102 U. S. 96, 106; Railway Co. v. Root, 105 U. S. 189, 198, 200, 204; Illinois Central Railroad v. Turrell, 110 U. S. 301, 303." (Italics ours throughout.)

In *Westinghouse Electric & Manufacturing Co.* v. *Wagner Electric & Manufacturing Co.*, 225 U.S. 604, at 615 (on certiorari to the Circuit Court of Appeals for the Eighth Circuit), Mr. Justice Lamar said:

"2. In considering the question presented by the record here, it is to be borne in mind that Congress has legislated (Rev. Stat., 4921) with a view of affording the patentee ample redress against the infringer. It not only makes the latter liable for damages—sometimes three-fold damages, but FOR ALL PROFITS derived from the use or sale of plaintiff's invention."

Dowagiac Mfg. Co. v. *Deere & Webber Co., Deere & Webber Co.* v. *Dowagiac Mfg. Co.*, 284 F.R. 331 (Circuit Court of Appeals, Eighth Circuit, September 11, 1922). Kenyon, Circuit Judge:

Page 338: "(4) *The owner of the patent is entitled to on accounting for* PROFITS *as well as to a recovery of damages.* PROFITS *represent what the wrongdoer has made in wrongfully dealing in other people's property. There is no right in equity for him to keep them. To take the* PROFITS *from him is merely taking what he amassed in the wrongful business of infringing on others' rights, and tends to make such business unpopular.*"

Page 339: ". . . Likewise, the accounting for PROFITS is on an entirely different theory from the recovery for damages, namely: That an infringer, even

though a tortfeasor and liable in damages, may also be charged as a *trustee de son tort,* and be liable as such to account for gains and PROFITS.

"In the *Brennan Case,* 162 Fed. 472, 89 C.C.A. 392, the court said:

" 'In a proceeding against an infringer for *profits,* the defendant may not inaptly be regarded as a trustee de son tort.'

"This was expressed by the trial court as follows (page 11, transcript of record, Deere & Webber):

" 'To say that an infringer of a patent is a tort-feasor, and to stop there, is to state only part of the true situation. An infringer is a tort-feasor, and liable in damages; he may also occupy the position of a trustee de son tort, and be liable for gains and *profits.* In both capacities he is subject to injunction.' " (Italics ours.)

On the general subject of joint tort-feasors and their release the following cases are instructive:

"In Elizabeth v. Pavement Co., 97 U. S. 126, 24 L. Ed. 1000, hereinbefore referred to, the court, speaking of profits said:

" *'It is also clear that a patentee is entitled to recover the* PROFITS *that have been actually realized from the use of his invention.'* "

Page 350: "*. . . The wrongdoer is not allowed to keep the profits he has made by selling an article which is an infringement of another's patent.*" (Italics ours.)

In *Beach* v. *Hatch,* 153 F.R. 763, at 764 (in the Circuit Court, District of Massachusetts, May 15, 1907), Colt, Circuit Judge, stated:

"*Under section 4921 and the decree entered in this case the master should have proceeded, first, to ascer-*

tain defendant's PROFITS; and, second, complainant's damages. *The complainant could then elect to have a decree entered for either* PROFITS *or damages.* Tilghman v. Proctor, 125 U. S. 136, 142-150 8 Sup. Ct. 894, 31 L. Ed. 664."

Page 765: ". . . *The former are 'the* PROFITS, *gains, savings, and advantages' which have accrued to the defendant by the use of the infringing machines, and which are recoverable on the principle that equity will not permit a wrongdoer to profit by his own wrong,* while the latter are the actual damages sustained by the complainant, which are recoverable on the principle of compensation for the loss he has suffered by the wrongful act of the defendant.' ". (Italics ours.)

AUTHORITIES RELIED ON BY COURT OF APPEALS.

The two cases relied upon by the Court of Appeals—*Gompers* v. *Buck Stove & Range Co.*, 221 U.S. 418, and *Kreplik* v. *Couch Patents Co.*, 190 F.R. 565—are in no respect authorities for its statement that—

". . . the District Court went far afield and exceeded its authority in decreeing that the complainants recover profits made by the respondent by the infringement of the letters patent."

"This pecuniary damage surely does not include profits which the defendant made by reason of the infringement. The item of profits should not have been allowed or taken into consideration in determining the remedial relief to which the complainants were entitled by way of fine or otherwise."

While the Gompers case was a case involving civil contempt, it was not a patent case, and did not and *could not* involve any question as to the allowability of patent *profits*

as part of the remedial relief. This question could not arise on the facts of the Gompers case.

GOMPERS CASE DISTINGUISHED WITH REFERENCE TO REMEDIAL RELIEF.

The Court of Appeals erred seriously in its original opinion on appeal, and also its opinion on rehearing, in its statements as to the Gompers case:

> "The fact that it was not a patent case can make no difference as to the nature of the elements of which the penalty may consist."

The Court further stated:

> "The Gompers case was not a patent case, but it was an equity case in which the contempt proceedings were brought" (50 F.R. (2d) at 711).

In so far as the relief awarded in patent cases is concerned, patent cases *are distinct and different* from other cases. Usually in cases at law or in equity the pecuniary damage or injury recoverable by a prevailing party is the damage which in such cases must be proven. The profits, if such be involved, made by a defendant are not recoverable by a plaintiff in the usual case in law or in equity.

In a patent case there is express statutory provision that, where plaintiff prevails, he is entitled to recover not only damages capable of proof, but also the *profits* made by the defendant by the patent infringement.

This statutory provision is applicable only to *patent cases.* While the general statement made by this Court in the Gompers case involving civil contempt that—

> "The only possible remedial relief for such disobedience would have been to impose a fine for the use of

> complainant, measured in some degree by the pecuniary injury caused by the act of disobedience" (50 F.R. at 711)—

was and is a correct statement of the law as applied to remedial relief upon the facts in that case and other similar cases (other than patent cases), such a statement is not a correct statement of the remedial relief to which a prevailing party is entitled in a *patent* case where there is an *express statutory* provision (R.S. 4921) which enables the prevailing party to recover the *profits* of the defendant, as well as the damages of the plaintiff.

It is clear, therefore, that the Court of Appeals for the First Circuit erred in applying a rule relating to remedial relief in a civil contempt case laid down by this Court, involving violation of an injunction issued in a labor dispute, to a *patent* case where specific statutory provision distinguishes the measure of relief applicable only to patent cases from that in general cases.

In *Worden* v. *Searls,* 121 U.S. 14, this Court considered an order in contempt and imposed "a fine of $1182—for damages and costs," and stated that—

> "It appears that the $1182 was made up of *$682, the* PROFITS *of the defendants* . . . and $500 expenses of the plaintiff in the contempt proceedings."

While the case of *Kreplik* v. *Couch Patents Co.,* 190 F.R. 565 (1 C.C.A.), was a patent case involving contempt, no question whatever of profits was considered. It does not appear that the defendant realized any profits. There was no accounting.

The sales by defendant constituting the contemptuous acts were only of sixteen single cots. The profits, if any were realized, would have been insignificant and would not have warranted the expense of an accounting. THE CRIMI-

NAL ASPECT DOMINATED IN THE ABOVE CASE, WHICH INVOLVED A SECOND CONTEMPT.

It is submitted that an Equity Court would be going contrary to express statutory direction contained in Revised Statutes, sec. 4921, if it refused to award the defendant's profits where infringement has been found and, after accounting, there were realized profits of $39,596.26 from the sales of the device found to be not only an infringement, but *in contempt* and *violation of the injunction* of this Court.

United States Revised Statutes, sec. 4921, states:

> "The several courts vested with jurisdiction of cases arising under the patent laws shall have power to grant injunctions according to the course and principles of courts of equity, to prevent the violation of any right secured by patent, on such terms as the court may deem reasonable; and upon a decree being rendered in any such case for an infringement the complainant shall be entitled to recover, in addition to the profits to be accounted for by the defendant, the damages the complainant has sustained thereby, and the court shall assess the same or cause the same to be assessed under its direction."

This contempt proceeding, being wholly remedial and compensatory in character, arises out of and is a part of the original proceeding, and the elements and factors entering into the remedial relief are—

> "incidents o[illegible] [appellees'] claims in the suit. His right to them was, if it existed at all, founded on his right to the injunction, and that was founded on the validity of his patent" (*Worden* v. *Searls,* 121 U.S. 14) (brackets ours).

The appellees' right to the profits of the defendant realized from the infringing acts found in contempt by this Court is—

> "founded on [appellees'] right to the injunction, and that [is] founded on the validity of [appellees'] patent" (brackets ours)—

which was completely sustained below.

This Court stated, in the Gompers case, 221 U.S. at pp. 444, 445, 446:

> "Proceedings for civil contempt are between the original parties and are instituted and tried as a part of the main cause.
>
> . . . . . .
>
> "Inasmuch, therefore, as proceedings for civil contempt are a part of the original cause, the weight of authority is to the effect that they should be entitled therein."

In the absence of any clear and specific prohibition and limitation upon the powers and authority of the Court, and in so far as it lies within the discretionary powers of a Court of Equity, it seems to be clear that, in order to do full, complete, and substantial justice, and in order to make it impossible that a tort-feasor may not profit by his own wrong, the Court should include, in the remedial relief granted, the profits which the defendant admits it has made by the acts of infringement in contempt of the injunction.

This Court has indicated that, in considering the questions involved in contempt proceedings and whether compensation shall be made to the injured party, there may be occasion for the exercise of judicial discretion.

In *Union Tool Co.* v. *Wilson,* 259 U.S. 107, at 112, it said:

> "In the determination of the question whether an injunction has been violated and, if so, whether compensation shall be made to the injured party, there may be occasion for the exercise of judicial discretion; but the order to be entered in such a proceeding is not exclu-

sively or necessarily a discretionary one. See Christensen Engineering Co. v. Westinghouse Air Brake Co. 135 F. R. 774. Gordon v. Turco Halvah Co. 247 F. R. 487. Moreover, legal discretion in such a case does not extend to a refusal to apply well settled principles of law to a conceded state of facts. See Winchester Repeating Arms Co. v. Olmsted 203 F. R. 493, 494; In re Sobol 242 F. R. 487, 489."

Upon the simple equities of the case, upon the practice of this Court and in the circuits, and upon the express statutory provisions granting the complainants "the profits to be accounted for by the defendant" (R.S. sec. 4921) "upon a decree being rendered in any such case for an infringement, . . . according to the course and principles of courts of equity, to prevent the violation of any right secured by patent," it is difficult to see how the Court, in the exercise of any "legal discretion," could deny the right of plaintiffs to recover the profits made by defendant, as part of their remedial relief to which they are entitled in this proceeding for contemptuous acts of infringement by defendant.

Judge Baker, of the Circuit Court of Appeals for the Seventh Circuit, in the case of *Winchester Repeating Arms Co.* v. *Olmsted,* 203 F.R. 493, in referring to the discretion of the Court, stated:

> "But discretion (which must be legal discretion, not merely the individual view or will of the particular chancellor) does not extend to a refusal to apply well settled principles of law to a conceded and indisputable state of facts."

Circuit Judge Rogers, speaking for the Circuit Court of Appeals for the Second Circuit in *In re Sobol,* 242 F.R. 487, stated:

> ". . . and it is also settled, in the absence of statutory regulation, that the matter of dealing with con-

tempts and how they should be punished are within the trial court's sound discretion, and that such discretion will not be interfered with, unless it has been grossly abused."

II. THE SECOND QUESTION CONSIDERED.

There is also submitted another question of general importance. This question is raised because of statements in the decision of the Court of Appeals for the First Circuit after rehearing, and should be determined in order to secure uniformity of decision between the Circuit Court of Appeals for the First Circuit and the Circuit Courts of Appeals for the Third, Sixth, and Ninth Circuits.

The decision below of the Court of Appeals for the First Circuit in this case after rehearing stated:

> "If the plaintiffs in this case had been able to prove that the infringing sales, out of which the profits were realized, caused them to suffer pecuniary damage, or had been able to prove what would have been a reasonable royalty for the use of their patent and *that they had lost the same through the defendant's conduct*, they could have established a case for the allowance of damages arising out of the infringing sales" (50 F.R. (2d) 711).

The second specific question presented for determination is whether it is necessary to prove "that they [petitioners] had lost the same [the reasonable royalty] through the defendant's conduct" as apparently held by the First Circuit Court of Appeals.

The Circuit Courts of Appeals for the Third, Sixth, and Ninth Circuits in the cases *McCune* v. *Baltimore & Ohio R.R.* (3d C.C.A.), 154 F.R. 63, *United States Frumentum Co.* v. *Lauhoff* (6 C.C.A.), 216 F.R. 610, and *Hunt* v. *Cassiday* (9th C.C.A.), 64 F.R. 585, 587, indicate that proof of a reason-

able royalty is sufficient as a measure of plaintiff's pecuniary loss or damage, without requiring further proof "that they [the plaintiffs] had lost the same [the reasonable royalty] through the defendant's conduct" as held by the First Circuit Court of Appeals herein.

In *Dowagiac Mfg. Co.* v. *Minnesota Plow Co.*, 235 U.S. 641, at 648, this Court indicated that proof of reasonable royalty was admissible as a measure of plaintiff's general damages or pecuniary loss or injury, but the necessity of further proving that the plaintiff lost such reasonable royalty through the defendant's conduct was not considered or passed upon.

It had offered proof in the case of reasonable royalty before the master, but no proof of loss of sales or royalty.

The question of law as to pecuniary damages or reasonable royalty on the basis of loss through respondent's conduct only came up by reason of that portion of the opinion of the Court of Appeals above quoted.

This Court considered a situation in which there was no adequate basis for damages for lost sales in—

> *Dowagiac Manufacturing Co.* v. *Minnesota Moline Plow Co.; Dowagiac Manufacturing Co.* v. *Smith*, 235 U.S. 641, at 648:

These were on certiorari to the Circuit Court of Appeals for the Eighth Circuit.

Mr. Justice Van Devanter delivered the opinion of the Court:

> ". . . There was therefore no *adequate* basis for an assessment of damages upon the ground of lost sales.
>
> "As the exclusive right conferred by the patent was property and the infringement was a tortious taking of a part of that property, the normal measure of damages was the *value of what was taken.* So, had the plaintiff pursued a course of granting licenses to others

to deal in articles embodying the invention, the established royalty could have been proved as indicative of the value of what was taken, and therefore as affording a basis for measuring the damages. Philp v. Nock, 17 Wall. 460, 462; Birdsall v. Coolidge, 93 U. S. 64, 70; Clark v. Wooster, 119 U. S. 322, 326; Tilghman v. Proctor, 125 U. S. 136, 143. But, as the patent had been kept a close monopoly, there was no established royalty. In that situation it was permissible to show the *value by proving what would have been a reasonable royalty,* considering the nature of the invention, its utility and advantages, and the extent of the use involved. Not improbably such proof was more difficult to produce, but it was quite as admissible as that of an established royalty. In Suffolk Co. v. Hayden, 3 Wall. 315, 320, where a like situation was presented, this court said that 'in order to get at a fair measure of damages, or even an approximation of it, general evidence must necessarily be resorted to.' See also Packet Co. v. Sickles, 19 Wall. 611, 617; Root v. Railway Co., 105 U. S. 189, 198. And in many cases in the other Federal courts the damages have been assessed upon proof of a reasonable royalty. The practice is illustrated by the following extract from the opinion in Hunt v. Cassiday, 12 C. C. A. 316, 318, 64 Fed. Rep. 585, 587: 'The plaintiff was clearly entitled to damages for the infringement. If there had been an established royalty, the jury could have taken that sum as the measure of damages. *In the absence of such royalty, and in the absence of proof of lost sales or injury by competition, the only measure of damages was such sum as, under all the circumstances, would have been a reasonable royalty for the defendant to have paid.* This amount it was the province of the jury to determine. In so doing, they did not make a contract for the parties, but found a measure of damages.'

"True, some courts have regarded Coupe v. Royer, 155 U. S. 565, as impliedly holding that this practice was not permissible, but the decision does not admit of such an interpretation. In that case—AN ACTION AT LAW—there was no proof of what would have been a reasonable royalty but only of what the defendant had made or might have made out of the infringement; and all that the court held was (a) that the damages were not to be measured by what the defendant had gained or might have gained but by what the plaintiff had lost, and (b) that, as the evidence disclosed (p. 583) 'no license fee, no impairment of the plaintiff's market, in short, no damages of any kind,' the verdict could not exceed a nominal sum. In Cassidy v. Hunt, 75 Fed. Rep. 1012, where the scope of that decision was carefully considered by one of the Circuit Judges for the Ninth Circuit, the conclusion was reached that it did not militate against an assessment of damages upon the basis of what would have been a reasonable royalty; and a like view was expressed and applied by the Circuit Court of Appeals for the Third Circuit in McCune v. Baltimore & O. R. R., 154 Fed. Rep. 63, and Bemis Car Co. v. Brill Co., 200 Fed. Rep. 749, 762, and by the Circuit Court of Appeals for the Sixth Circuit in United States Frumentum Co. v. Lauhoff, 216 Fed. Rep. 610. But, although the plaintiff was entitled to prove what would have been a reasonable royalty, and thereby to show a proper basis for an assessment of damages, no proof upon that subject was presented.

. . . . . .

". . . The patent was valid and the invention meritorious. The infringing sales covered 2500 or more drills, the profits were substantial, and the damages, if rightly measured, were evidently more than nominal. The hearings before the masters were had prior to the decision in Westinghouse Co. v. Wagner Co. [225 U. S.

615], supra, at a time when the decisions bearing upon the apportionment of profits, as also upon the admeasurement of damages, were not harmonious; and this resulted in the evidence being so imperfectly presented as not to afford the data requisite to a final adjustment of the matters in controversy according to their merits.

"The decrees are accordingly reversed, without costs, with directions to recommit the cases to a master in order that the questions involved in the original reference may be heard anew upon the evidence heretofore taken and such further evidence as may be submitted, and for further proceedings in conformity with this opinion."

However, all these considerations are simplified when the controlling sum, *i.e.* profits, is utilized as a basis of recovery—whatever it may be called.

On that basis damages and reasonable royalty become identified.

REASONABLE ROYALTY RULE.

If petitioners are entitled to defendant's profits as remedial relief, there should be no necessity for having to resort to the reasonable royalty rule in awarding remedial relief for the civil contempt in this case.

In the case of *Dowagiac Mfg. Co.* v. *Minnesota Plow Co.*, 235 U.S. 641, where it appeared that the defendant had made substantial profits, and the—

"damages if rightly measured were evidently more than nominal"—

this Court reversed the lower Courts—

"with directions to recommit the case to a Master in order that the questions involved in the original reference might be heard anew upon the evidence heretofore

taken, and such further evidence as may be submitted, and for further proceedings as in conformity with this opinion."

In the Dowagiac case, it appeared that—

"their infringement was not wanton or willful."

In the present case now before this Court it appears that the infringement was—

"a clever imitation of the Peterson spring wedge adopted by the Krentler-Arnold Company, in a deliberate attempt to discover a means of availing itself of the invention, without infringing the patent."

See opinion of the District Court (Original Record, p. 284). Judge Lowell also stated in this opinion:

"since the beginning of this action for infringement which was brought originally by the Krentler Company it has consistently disobeyed the orders of this Court."

In the Dowagiac case it appeared that the plaintiff did not conform to the rule requiring it to submit evidence showing what portion of the profits the plaintiff was entitled to, and for this reason the lower Courts held that the plaintiff was merely entitled to nominal damages, even though it had appeared that the defendant had made substantial profits.

In the present case there is involved no question of apportioning of the profits, because no such question was raised, and the District Court confirmed the master's report, finding that the petitioners were entitled to the entire profits.

On accounting before the master petitioners relied mainly upon the profits made by the defendant as the measure of its remedial relief, because petitioners felt that, under the statutes, they were clearly entitled to such profits by way of remedial relief and that, if petitioners obtained such profits,

such would afford the most convenient basis of compensation as a measure of remedial relief.

Petitioners under these circumstances did not deem it necessary to offer proof of their damage on the reasonable royalty basis, so that, on the contempt phase of this case, petitioners did not introduce evidence before the master in the further accounting to show what would have been a reasonable royalty. However, in the original accounting before the master, before the contempt proceedings were instituted, petitioners did submit evidence as to damages suffered on the basis of the "reasonable royalty rule." The master found that the damage on the reasonable royalty rule suffered by the petitioners amounted to $6921.43 (see 24 F.R. (2d) 423—see also pp. 35-36 of the Original Record). However, the Court overruled the master as to "his finding as to damages," but confirmed the master's finding as to the profits.

If this Court finds that the Court of Appeals erred in not allowing the defendant's profits as a measure of remedial relief on the civil contempt phase of the case, and thus reverses the Court of Appeals, making it possible for the petitioners to obtain the defendant's profits, with interest, and the petitioners' costs and expenses, including counsel fees, it would not appear to be necessary to refer the case back to the master to go into the question of damages on the basis of the reasonable royalty rule.

However, if this Court finds that the petitioners are not entitled to the defendant's profits, in these proceedings, petitioners' should be given an opportunity of submitting further proof as to its damages on the reasonable royalty basis, which petitioners could do as on the accounting in the original suit before the petition and contempt was filed.

It is not thought that petitioners should be prejudiced by the unstated and unsettled condition of the law as to the proper measure of remedial relief in civil contempt in patent cases. This Court, in substance, held thus in the Dowagiac

case when the Court reversed the lower Court and recommitted the case for further proofs before the master upon the reasonable royalty basis, in order to do substantial equity and justice.

This Court said, in—

Mowry v. *Whitney*, 14 Wall. 620, at 653:

"... The *profits* which are recoverable against an infringer of a patent are in fact a compensation for the injury the patentee has sustained from the invasion of his right. They are the *measure of his damages*. Though *called* profits, they *are really damages*, and unliquidated until the decree is made."

INHERENT AND STATUTORY POWER OF COURT IN CONTEMPT PROCEEDING.

The holding of the Court of Appeals also raises the question of whether the provisions of Judicial Code, sec. 268; United States R.S. sec. 725, for "Power to administer oaths and punish contempt," preclude the allowance, as a measure of the fine and/or by way of remedial relief in civil contempt, of respondent's *profits* which had been found by the District Court and by the Court of Appeals to have been wrongfully realized from the infringing acts constituting the contempt. Under R.S. sec. 4921, the legal rights of petitioners are such as to entitle them to those profits.

Judicial Code, sec. 268 (U.S. R.S. sec. 725), expressly empowers the Court—

"... to punish, by fine or imprisonment, *at the discretion of the court*, contempts of their authority."

This Court said, in *New Orleans* v. *Steamship Co.*, 20 Wall. 387:

"The imposition of a fine was a judgment in a criminal case."

The present proceeding is not a criminal contempt, but is a civil contempt.

Where the contempt assumes a civil aspect as involving the rights of the plaintiff, there is certainly nothing in section 725 which precludes or prevents a Court from granting, as a measure of the fine, the recovery of defendant's profits made by the infringing acts held to be in contempt, where this is the right given by statute, U.S. R.S. sec. 4921, to the plaintiff.

It surely cannot be said that the District Court "grossly abused" its discretion when it made such a disposition of the case in awarding remedial relief, as a measure of the fine, as was in accordance with U.S. R.S. sec. 4921, and such as made it impossible for a tort-feasor to profit from its own wrong.

In a case in the District of Massachusetts involving civil contempt for violation of an injunction, the Court ordered the defendant to pay as a part of the remedial relief—

> "*certain* PROFITS *assessed by the master,* by certain other days, and in default of payment to be committed."
>
> *Hendryx et al.* v. *Fitzpatrick,* 19 F.R. 810 (Circuit Court, Dist. Mass., April 2, 1884), opinion by Judge Lowell, citing *Searls* v. *Worden,* 13 F.R. 716.

On the question as to the propriety of applying the usual modes of proceeding in patent cases on the equity side of the Court, considering particularly U.S. R.S. sec. 4921, to proceedings for civil contempt where remedial relief is granted, Judge Lowell said, at page 812:

> "The courts have power to punish for contempt, (Section 725) but all forms and modes of proceeding which are usual in equity may be followed in cases in equity. Sec. 912."

The principle of equity applies that, where a Court of Equity has once acquired jurisdiction of the parties and subject-matter, it will grant full and complete justice wherever possible, without requiring a party to resort to other actions in different forums. The Court below had acquired jurisdiction in equity of the parties and subject, and it appears that the defendant has made profits from wrongful acts of infringement in violation of an injunction. It would seem clear from simple logic and reason and upon the equitable principles that the Court was authorized to grant every remedial relief in this contempt phase of the proceeding, which was incidental to, a part of, and a continuation of the original relief, which was accorded in the cause, without imposing on plaintiffs the burden of taking further independent action in a foreign jurisdiction. Further, it should not have been necessary for plaintiffs to bring any further supplementary or ancillary proceeding in the present cause, because in the petition there was included a prayer for the profits of Krentler Company "resulting from the further acts of infringement in violation of the injunction" (see Record, p. 7).

A prayer for general equitable relief was also made as follows:

> "That defendant counterclaimants have such other and further relief as justice and equity may require" (Original Record, p. 7).

In order that there might be no confusion in this case on appeal as to whether this contempt was criminal or civil in nature, appellees, when the order and decree below was entered, refrained from the use of any words or characterizations that might in any way indicate that the award was of punitive character. While in some instances this Court has indicated that, where the word "fine" is used, an element of criminality is imputed or involved, the decree below made

it certain that the Court below ultimately disposed of the case on the basis of civil contempt alone as involving the private rights of the appellees.

In *New Orleans* v. *Steamship Co.*, 20 Wall. 387: "The imposition of the fine was a judgment in a criminal case."

In determining the remedial relief, the rights of petitioners as determined by statute and the adjudicated cases, involving patent infringement, would seem to be a fair, safe, and reasonable guide to follow. In applying such tests it would seem to be clear that petitioner was entitled to profits made by the Krentler Company, from the wrongful acts of infringement, together with the costs and expenses to which petitioners have been put in these proceedings, in the lower Court and also in the Court of Appeals.

In some contempt cases, particularly where the defendant found guilty has been imprisoned, the Courts have considered the right to pardon in order to obtain the release of the party. Whether or not there is any such right in the Crown, the President, or the Court depends upon whether the contempt is criminal in nature for the benefit of the state, or whether it is civil in nature as involving the "vested private right" of the plaintiff. In *In re Wm. Mullee*, 7 Blatch. 23, at 28 and 29, Judge Blatchford said:

> "If *the right to the fine should be regarded as a vested private right in the plaintiff in the suit,* existing in the shape of a judgment, this court would have no right to discharge it." (Italics ours.)

In *In re Nevitt* (8 C.C.A., Opinion by J. Sanborn), 117 F.R. 448, at 458-459, in commenting upon the lack of authority or power of the President to pardon for civil contempt involving private rights, it is stated:

> "He has no more power to deprive private citizens of their lawful rights and legal remedies without compensation than have the courts or the congress."

It would seem, in this case before the Court, that the Court of Appeals was without power to deprive the petitioners of their lawful rights by refusing to allow the profits wrongfully made by respondent, to which profits petitioners are clearly entitled under Revised Statutes, sec. 4921.

The Court in the Nevitt case was considering a civil contempt case, and defined it as—

> "A proceeding instituted for the purpose of protecting and enforcing the private rights and administering the legal remedies of the judgment plaintiff, Douglas" (117 F.R. at 458).

It is urged that the Court of Appeals was somewhat confused in its conception of what should be the measure of the fine in a criminal contempt as distinguished from a civil contempt. The case of *Kreplik* v. *Couch Patents Co.*, 190 F.R. 565, relied upon by the Court of Appeals, was a case involving a second contempt, in which the *criminal aspect dominated the case.* The Court stated:

> "The case now before us was, in its dominant element, confessedly and unquestionably a *criminal* proceeding" (190 F.R. at p. 571). (Italics ours.)

That case is no authority on the question of the amount of compensation awarded. The opinion stated:

> "This court is not called upon to pass upon the question whether or not the compensation so awarded is excessive. Questions as to the amount of compensation to the petitioner are not properly raised."

It appears in that case that "the Circuit Court imposed a fine in the absence of evidence showing the expense incurred by the petitioner" (at p. 568). This was assigned as error by defendant, but was not considered by the Court, because

"he did not rely upon such assignment in his exceptions. He did not make them a part of his exceptions. Thus the question of the reasonableness of compensation is not before us."

In the case now before this Court an accounting was had, and the master's report, stating the profits made by Krentler, and the expenses incurred and *paid by appellees,* was approved by the District Court. The master's report was based upon evidence produced before him, which evidence was not before the Court of Appeals.

McKee Glass Co. v. *Fry Glass Co.,* 248 F.R. 125, states:

> "As there was evidence before the trial judge which is not before us, and as it is plain that in reaching his decree the trial judge considered that evidence, we must assume on authority of Pound v. Turck 95 U. S. 459, 24 L. Ed. 525, and Wagner v. Sanitary 244 Pa. 310, 91 Atl. 353, that there was sufficient evidence on which to base the award of $10,000."

No assignment of error was made that the finding of the master as to the profits made by Krentler Company or the expenses incurred by appellees either was contrary to the evidence or was without support of any evidence. The finding of the master as affirmed by the District Court should not be disturbed unless for clear error. In *Adamson* v. *Gilliland,* 242 U.S. 350, at p. 353, the Court said:

> ". . . *so far as the finding of the Master or Judge* who saw the witnesses depends upon conflicting testimony or upon the credibility of witnesses, or *so far as there is any testimony consistent with the finding, it must be treated as unassailable.*" (Italics ours.)

The master found, with reference to the expenses incurred by appellees:

"*all of these charges for services* except the charge of $251.48 for the month of April 1930, *have been paid by the Belcher Company.* The nature and character of these services was described in some detail by Mr. Spear by whom, and other members of his office force, such services were rendered.

"I find the charges to be reasonable for the services rendered and that *such services were rendered wholly in connection with the preparation and prosecution of these contempt proceedings,* and I therefore find in favor of the Belcher Company in the sum of $6,491.87 to cover costs and expenses, including counsel fees incurred by the petitioners in preparing and prosecuting these contempt proceedings." (Italics ours.)

It is submitted that the questions involved go to the very roots of proceedings in civil contempt in patent cases, and that there is urgent need for a definite pronouncement by this Court to avoid further confusion among the circuits, to relieve industries developed under the patent laws from embarrassment and confusion, and to uphold the dignity of the Courts and respect for the injunctions and orders of the Courts by making it unprofitable and unpopular to violate such injunctions and orders.

If the rights of a party for recovery are lessened in proceedings in which the aspect of contempt is called to the attention of the Court, there will result a lessened opportunity for Courts to deal with contempts of their own authority in the maintenance of their dignity.

The guarantees under the patent statutes of the legal rights of patentees are matters of public policy and great public importance, and particularly the legal rights of patentees under R.S. sec. 4921, are of the greatest practical importance in sustaining those guarantees, whether in an original infringement suit or by way of remedial relief in civil contempt after final decree.

Contempt proceedings for violations of injunctions in patent cases are appropriate and to be encouraged. Such injunctions follow long and exhaustive litigation in most instances. Contempt proceedings on a basis established for the several circuits by this Court would deter reckless disregard for injunctions and expedite justice where there is continued or renewed infringement.

The decision of the Court of Appeals for the First Circuit denying the award of respondent's profits as remedial relief, heretofore granted in other circuits, negatives what was an apparently recognized and accepted basis of remedial relief. It is a curtailment of the principles of equity in affording full relief and a plain departure from recognized principles which can only lead to further confusion unless and until determined by this Court. It is a fundamental principle of equity that where it takes jurisdiction, it will grant full, adequate, and complete relief and not leave the complaining party to the necessity of another independent action involving a duplication of effort and expense.

In patent cases a patentee may recover an infringer's "profits" because such profits do not belong to the infringer, but are regarded as in effect funds misappropriated by the wrongful use of the invention. The restoration of such profits to the real owner is in reality granting him a remedy for the injury or damage he has suffered through the misuse of his invention by the infringer. *Tilghman* v. *Proctor*, 125 U.S. 136, at 144. There is no reason to draw any distinction, in civil contempt proceedings, between such profits and the possibly more direct losses which the Circuit Court of Appeals conceived of as "damages." This view is obviously sound and manifestly just in a case like the present, where the Circuit Court of Appeals admits that the petitioner is entitled to the profits in question, where it approves granting partial relief for what it calls damages, and where the disallowance of the lower Court's decree for profits will result in duplication of expense and litigation.

There is a very real and urgent reason why the Court of Equity should allow the profits as remedial relief, in this case, so as to make the relief full, adequate, and complete. The petitioner in this contempt proceeding was originally a defendant counter-claimant. The respondent, a Michigan corporation, original plaintiff, voluntarily submitted itself to the jurisdiction of a Court of Equity by filing its bill. If the petitioner is not granted full, adequate, and complete relief in this proceeding, it may be necessary to resort to a new or independent proceeding in a different jurisdiction. Such a duplication of effort and expense should not be necessary where the Court now has jurisdiction of the parties and of the subject-matter.

It is submitted that the law and the practice as indicated by this Court and as developed in the circuits show that infringing profits are and should be recoverable in civil contempt proceedings, whether they be classified as a fine, damages, or other basis of equitable relief.

It is submitted that in civil contempt proceedings in a patent case the contempt usually, as in the present case, consists of the violation of an injunction not to infringe.

Infringements are enjoined by law as to making, using, or selling. Of these three acts the selling for a large profit is not only the unlawful appropriation of the patent owner's property rights, but constitutes the motive for the continued wrong previously enjoined, and supplies the funds for resistance to law, and for further invasions of the constantly diminishing term of the patent right.

It is submitted, in conclusion, that the portion of the decree of the Court of Appeals below denying petitioners profits realized by the respondent from the acts in violation of the injunction should be reversed and the decree of the District Court ordered affirmed in all respects.

It is submitted that, in view of the deliberate and aggravated character of the respondent's civil contempt, and in accordance with the remedial basis of relief found appro-

priate by the District Court below allowing petitioners' costs and expenses, including counsel fees, that petitioners should be awarded the costs in the Circuit Court of Appeals, including the costs of preparing and printing the briefs and counsel fees; and that petitioners be allowed full expenses, fees, and costs on this petition for certiorari, including the ordinary costs, and including the costs of preparing and printing the petition and briefs, and also petitioners' counsel fees.

Respectfully submitted,

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EDWARD N. GODING,
EIFFEL B. GALE,
Attorneys for Petitioners.

ADDENDA.

Petitioner is inserting this addenda in anticipation of an indicated attempt on the part of counsel for respondent to raise and argue at length, in its brief, questions of jurisdiction, questions of scope, construction and interpretation of the patent, and the question of infringement. All of these questions are wholly outside of the questions properly now before this Court for consideration, under the writ of certiorari as allowed.

The questions attempted to be raised by the respondent before this Court involve merely the usual issues of an ordinary patent case, upon which the findings and decree of the Court of Appeals under the statutes is conclusive and final, unless it appears to be necessary to reconcile decisions of the different Circuit Courts of Appeals on the same patent. See Judicial Code, sec. 128, as amended; Act January 28, 1915, c. 22, sec. 2; U.S. Compiled Statutes 1916, sec. 1120. See also *Keller* v. *Adams-Campbell Co.*, 264 U.S. 314, at 319, opinion by Mr. Chief Justice Taft:

> "Such an ordinary patent case with the usual issues of invention, breadth of claims and non-infringement, this Court will not bring here by certiorari unless it be necessary to reconcile decisions of Circuit Courts of Appeal on the same patent."

The respondent filed no cross-petition for certiorari.

A copy of the letter, dated November 28, 1931, sent by respondent's counsel to counsel for petitioner, expressing an intention and purpose on the part of the respondent to raise the above questions in this Court, if possible, and consider them in respondent's brief, has been filed in the office of the clerk of this Court. A copy of the reply letter, dated December 10, 1931, sent to counsel for respondent by counsel for petitioner, protesting and objecting to the effort of respondent to raise immaterial questions, and burden this

Court therewith, especially when such questions clearly appear to be wholly outside of the questions raised and presented in the writ of certiorari as allowed, is also filed in the office of the clerk of this Court.

In *Hubbard* v. *Tod,* 171 U.S. 474, at 494, opinion by Mr. Chief Justice Fuller, this Court said:

> "And as respondents did not apply for certiorari, we shall confine our consideration of the case to the examination of errors assigned by petitioner."

The Court made the above statement after referring to the Judiciary Act of March 3, 1891, c. 517, sec. 6; 26 Stat. 826, 828, which provided that, in any case in which the judgments or decrees of the Circuit Court of Appeals are made final, they may be required, by certiorari or otherwise, to be certified to this Court "for its review and determination, with the same power and authority in the case as if it had been carried by appeal or writ of error to the Supreme Court."

Respectfully,

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